

# **Indicators of Fraud in the Government Contracting Process**

## **7<sup>th</sup> USA Procurement Fraud Course, May 31 – June 2, 2006**

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### **1. INTRODUCTION/OVERVIEW**

- DCMA Contract Integrity Center
  - How, when, where & why
  - DCMA CIC Employee Survey
  - Other useful information
- Fraud Training
  - Direct, in-person training, if possible
  - Involve local investigators in the training, if possible
  - Stress the requirement/need for them to report incidents
  - Use examples or cases to which attendees can relate to explain the 'types' of fraud that might occur and how to detect the fraud
  - Indicators of Fraud ("Red Flags")

### **2. WHAT IS AN INDICATOR?**

- A sign or a clue
- Form
  - Written
  - Oral
  - Action/In-action
  - Reaction
- Obvious or subtle
- Interpretation

### **3. INDICATORS FROM WHO? WHEN? WHERE?**

- Contractors
- Subcontractors
- Users

### **4. FRAUD INDICATORS FOR QUALITY ASSURANCE PERSONNEL**

- Altered Test Reports/Certifications
- “Non-Operating Test Equipment
- Insufficient test equipment or time for quantity to be tested
- Lack of skilled inspectors (or test equipment operators)
- Test or inspection results show no or very little variance between multiple parts
- Pre-Signed” Certification or Receipt Forms
- Non-Availability of Basic Information
- Commingled tested and untested items
- Salting Lots
- Substituting Generic for Name Brand Parts
- Questionable Testing Claims
- Parts Failures after 100% Inspection and Testing
- Subsequent test and inspection failures on products for which performance based payments were made
- Limited Government Access to Production and Storage Facilities
- Rush Job (end of the Month)
- Unwillingness to mark, ship or seal in your presence
- Major work schedule changes without notice
- Contractor efforts to hide records
- Poor reproduction of certifications, illegible or incomplete documentation (OR a “perfect package”)
- Use of lesser skilled labor than originally anticipated

- Substituting foreign made products for domestic items
- Brokers/distributors with no expertise or quality controls
- Significantly lower prices than competition, no explanation
- Frequent complaints by users of supplies or services

## **5. FRAUD INDICATORS FOR CONTRACTS/PRICING SPECIALISTS**

- Different typeface on an invoice
- Invoices for services that could/should not have been performed as claimed
- Submission of cost or price information through multiple channels
- Requests for payment that are inconsistent with earlier cost reports
- Nonpayment of subcontractors and suppliers
- Undue delays in liquidating progress payments
- FPI and cost type contracts
  - Contractor bills costs that are not required for contract performance
  - Contractor makes little or no physical progress on the contract even though significant costs have been billed and the contract delivery schedule indicates significant progress should have occurred
  - History of frequent invoice/voucher errors, poor documentation, & claiming unallowable costs
  - High turnover of contractor personnel preparing payment requests
  - A disproportionate percentage of employees charging indirect
  - Work performed for other divisions excluded from G&A base
  - Specialized/dedicated equipment is capitalized as contract reaches target or ceiling

- FFP contracts
  - Brokers/distributors with no expertise or quality controls
  - Significantly lower prices than competition, no explanation
  - Frequent complaints by users of supplies or services
  - Inadequate traceability of parts
- Payments
  - Payments made to other than official “remit to” address
- Contractor Procurement System
  - One person authorized to both order and receive goods and services
  - Inadequate technical or quality surveillance processes, reliance on CoC’s from unknown suppliers

## **6. FRAUD INDICATORS FOR ALL PERSONNEL (BRIBERY/KICKBACKS)**

- Frequent and apparently unnecessary visits by vendors
- Vendor wining and dining/entertaining of buyers
- Shoptalk or gossip about vendor/buyer relationships
- Apparent vendor favoritism
- Frequent use of a particular vendor in spite of continual difficulty, complexity or delay by the vendor
- Excessive use of a single vendor in a competitive field
- Unexplained or unnecessary disqualification of competitors
- Apparent excessive pricing for items or services supplied
- Brokers/distributors with no expertise or quality controls
- Collusive bidding, price fixing or bid-rigging (employees should be alert to agreements among competitors to)
  - Adhere to published price lists
  - Raise prices by a specified increment
  - Establish, Adhere to, or eliminate discounts
  - Not to advertise prices

- To maintain specified price differentials based on quantity, type, or size of product

## **7. YOU SEE IT, YOU RECOGNIZE IT – NOW REPORT IT!**

- Facilitate reporting
- Encourage and protect ‘reporters’
- DO NOT SHARE INFORMATION WITH CONTRACTORS
- Information shared internally on ‘NEED-TO-KNOW-BASIS’
- Lessons Learned

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DCMA CIC Website – <http://home.dcma.mil/CNTR-DCMAC-Y/INDEX.HTM>

DCMA CIC Guidebook

DCMA CIC Training Lesson Plan (Generic)

DCMA CIC Brochure

DCMA CIC *Focus on Fraud* Newsletter

DCMA CIC *Red Flags* (Indicators)